

VECTREN UTILITY HOLDINGS INC
Form 10-Q
August 10, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-16739

VECTREN UTILITY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

INDIANA 35-2104850
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

One Vectren Square, Evansville, IN 47708
(Address of principal executive offices)
(Zip Code)

(812) 491-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
 Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock- Without Par Value	10	July 31, 2017
Class	Number of Shares	Date

Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports, including those of its wholly owned subsidiaries, free of charge through its website at www.vectren.com as soon as reasonably practicable after electronically filing or furnishing the reports to the SEC, or by request, directed to Investor Relations at the mailing address, phone number, or email address that follows:

Mailing Address: One Vectren Square
Evansville, Indiana 47708
Phone Number: (812) 491-4000
Investor Relations Contact: David E. Parker Director, Investor Relations vvcir@vectren.com

Definitions

The Administration: Executive Office of the President of the United States
AFUDC: allowance for funds used during construction
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
BTU / MMBTU: British thermal units / millions of BTU
DOT: Department of Transportation
EPA: Environmental Protection Agency
FAC: Fuel Adjustment Clause
IRP: Integrated Resource Plan
IURC: Indiana Utility Regulatory Commission
kV: Kilovolt
MCF / BCF: thousands / billions of cubic feet
MDth / MMDth: thousands / millions of dekatherms
MISO: Midcontinent Independent System Operator
MW: megawatts
MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

GAAP: Generally Accepted Accounting Principles

GCA: Gas Cost Adjustment

IDEM: Indiana Department of Environmental
Management

OUCC: Indiana Office of the Utility Consumer Counselor

PHMSA: Pipeline and Hazardous Materials Safety
Administration

PUCO: Public Utilities Commission of Ohio

XBRL: eXtensible Business Reporting Language

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited – In millions)

	June 30, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash & cash equivalents	\$5.4	\$ 9.4
Accounts receivable - less reserves of \$4.7 & \$4.1, respectively	74.6	102.6
Accrued unbilled revenues	44.1	112.0
Inventories	108.2	119.0
Recoverable fuel & natural gas costs	32.1	29.9
Prepayments & other current assets	32.7	38.6
Total current assets	297.1	411.5
Utility Plant		
Original cost	6,757.5	6,545.4
Less: accumulated depreciation & amortization	2,654.9	2,562.5
Net utility plant	4,102.6	3,982.9
Investments in unconsolidated affiliates	0.2	0.2
Other investments	25.8	21.3
Nonutility plant - net	182.7	164.8
Goodwill	205.0	205.0
Regulatory assets	244.7	206.2
Other assets	44.2	49.0
TOTAL ASSETS	\$5,102.3	\$ 5,040.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited – In millions)

	June 30, 2017	December 31, 2016
LIABILITIES & SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	\$ 106.5	\$ 205.4
Payables to other Vectren companies	38.0	25.4
Accrued liabilities	142.4	140.1
Short-term borrowings	210.9	194.4
Current maturities of long-term debt	49.1	49.1
Total current liabilities	546.9	614.4
Long-Term Debt - Net of Current Maturities	1,331.4	1,331.0
Deferred Credits & Other Liabilities		
Deferred income taxes	906.8	854.5
Regulatory liabilities	469.4	453.7
Deferred credits & other liabilities	151.0	163.3
Total deferred credits & other liabilities	1,527.2	1,471.5
Commitments & Contingencies (Notes 8 - 11)		
Common Shareholder's Equity		
Common stock (no par value)	874.2	831.2
Retained earnings	822.6	792.8
Total common shareholder's equity	1,696.8	1,624.0
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	\$5,102.3	\$ 5,040.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited – In millions)

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
OPERATING REVENUES				
Gas utility	\$144.0	\$132.0	\$436.8	\$413.1
Electric utility	141.8	147.7	273.8	289.8
Other	0.1	0.1	0.1	0.2
Total operating revenues	285.9	279.8	710.7	703.1
OPERATING EXPENSES				
Cost of gas sold	37.2	34.0	150.1	145.5
Cost of fuel & purchased power	43.6	45.2	84.7	89.4
Other operating	84.4	81.3	170.0	171.4
Depreciation & amortization	57.9	54.0	115.3	107.6
Taxes other than income taxes	13.1	13.1	27.5	30.2
Total operating expenses	236.2	227.6	547.6	544.1
OPERATING INCOME	49.7	52.2	163.1	159.0
Other income - net	7.8	7.0	14.9	13.3
Interest expense	17.6	17.5	35.2	35.0
INCOME BEFORE INCOME TAXES	39.9	41.7	142.8	137.3
Income taxes	14.4	15.4	51.4	49.9
NET INCOME	\$25.5	\$26.3	\$91.4	\$87.4

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited – In millions)

	Six Months Ended June 30, 2017 2016	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$91.4	\$87.4
Adjustments to reconcile net income to cash from operating activities:		
Depreciation & amortization	115.3	107.6
Deferred income taxes & investment tax credits	49.8	44.1
Expense portion of pension & postretirement benefit cost	1.8	2.0
Provision for uncollectible accounts	3.0	3.8
Other non-cash items - net	(0.2)	1.4
Changes in working capital accounts:		
Accounts receivable & accrued unbilled revenues	92.9	62.0
Inventories	10.8	9.9
Recoverable/refundable fuel & natural gas costs	(2.2)	(26.3)
Prepayments & other current assets	5.9	13.0
Accounts payable, including to Vectren companies & affiliated companies	(87.2)	(43.3)
Accrued liabilities	2.3	3.2
Changes in noncurrent assets	(13.6)	(34.1)
Changes in noncurrent liabilities	(9.6)	2.1
Net cash provided by operating activities	260.4	232.8
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from additional capital contribution	43.1	28.0
Requirements for:		
Dividends to parent	(61.6)	(58.0)
Retirement of long-term debt	—	(13.0)
Net change in short-term borrowings	16.5	24.4
Net cash used in financing activities	(2.0)	(18.6)
CASH FLOWS FROM INVESTING ACTIVITIES		
Requirements for:		
Capital expenditures, excluding AFUDC equity	(260.9)	(215.9)
Other costs	(2.4)	—
Changes in restricted cash	0.9	0.1
Net cash used in investing activities	(262.4)	(215.8)
Net change in cash & cash equivalents	(4.0)	(1.6)
Cash & cash equivalents at beginning of period	9.4	6.2
Cash & cash equivalents at end of period	\$5.4	\$4.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

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VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Nature of Operations

Vectren Utility Holdings, Inc. (the Company, Utility Holdings or VUHI), an Indiana corporation, was formed on March 31, 2000, to serve as the intermediate holding company for Vectren Corporation's (Vectren or the Company's parent) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren Energy Delivery of Indiana - North), Southern Indiana Gas and Electric Company (SIGECO or Vectren Energy Delivery of Indiana - South), and Vectren Energy Delivery of Ohio, Inc. (VEDO). Herein, 'the Company' may also refer to Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company, Inc. and/or Vectren Energy Delivery of Ohio, Inc. The Company also has other assets that provide information technology and other services to the three utilities. Vectren, an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana and was organized on June 10, 1999. Both Vectren and the Company are holding companies as defined by the Energy Policy Act of 2005 (Energy Act).

Indiana Gas provides energy delivery services to approximately 595,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 145,000 electric customers and approximately 112,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation assets to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. VEDO provides energy delivery services to approximately 319,000 natural gas customers located near Dayton in west-central Ohio.

2. Basis of Presentation

The interim condensed consolidated financial statements included in this report have been prepared by the Company, without audit, as provided in the rules and regulations of the Securities and Exchange Commission and include a review of subsequent events through the date the financial statements were issued. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted as provided in such rules and regulations. The information in this report reflects all adjustments which are, in the opinion of management, necessary to fairly state the interim periods presented, inclusive of adjustments that are normal and recurring in nature. These interim condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 9, 2017, on Form 10-K. Because of the seasonal nature of the Company's utility operations, the results shown on a quarterly basis are not necessarily indicative of annual results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. Subsidiary Guarantor and Consolidating Information

The Company's three operating utility companies, SIGECO, Indiana Gas, and VEDO, are guarantors of the Company's \$350 million in short-term credit facilities, of which \$211 million was outstanding at June 30, 2017, and the

Company's \$996 million in unsecured senior notes outstanding at June 30, 2017. The guarantees are full and unconditional and joint and several, and the Company has no subsidiaries other than the subsidiary guarantors. However, it does have operations other than those of the subsidiary guarantors. Pursuant to Item 3-10 of Regulation S-X, disclosure of the results of operations and balance sheets of the subsidiary guarantors, which are wholly owned, separate from the parent company's operations is required. Following are condensed consolidating financial statements including information on the combined operations of the subsidiary guarantors separate from the other operations of the parent company. Pursuant to a tax sharing agreement, consolidating tax effects, which are calculated on a separate return basis, are reflected at the parent level.

Condensed Consolidating Balance Sheet as of June 30, 2017 (in millions):

ASSETS	Subsidiary Guarantors	Parent Company	Eliminations & Reclassifications	Consolidated
Current Assets				
Cash & cash equivalents	\$ 4.4	\$ 1.0	\$ —	